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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON REGIONAL OFFICE  
FIFTH FLOOR  
803 WEST BROAD STREET  
FALLS CHURCH, VIRGINIA 22046

DEC 4 1970



Dear Mr. Allen:

We have completed the review we undertook earlier this year of the internal controls employed by Government Services, Inc (GSI) for safeguarding the company's assets including the controls employed in GSI's automatic data processing system. In performing this work, we noted several areas in which it appeared that changes in existing practices would either improve internal control or be more economical. Our observations regarding these areas are presented below for your consideration.

CONTROLS OVER CASH  
COLLECTIONS NEED IMPROVEMENT

To test controls over cash collections, we reviewed a selected group of daily reports of cash collections prepared by the various cafeterias, snack bars, and other operating units. These reports are prepared by personnel at the operating units from cash register tapes which show beginning and ending balances that provide a basis for determining how much cash should have been received. We found that the cash register tapes from which the daily reports are prepared do not accompany the daily reports to the accounting department. Not sending the tapes to support the daily report eliminates an important element of internal control because, without these tapes, the accounting department cannot determine whether the proper amount has been deposited or is transmitted for deposit.

We also found no evidence that errors reported on the daily report were investigated by management. For instance, one daily report stated that an overring of \$259 had occurred because the cash register jumped. Similar overrings occurred on the following 2 days, yet we found no evidence that management had made an investigation of these overrings.

Also, it is the practice to have the cashiers in the cafeterias mentally add the prices of items on the customers' trays instead of ringing the prices of individual items and using the subtotaling capability of the machines to total the diners' bills. In a special review made by the General Services Administration last year, it was reported that this practice led to arithmetical errors and that these errors tended to favor the customers. We found that the procedures followed in determining the amount of individual sales in the cafeterias have not been changed and still do not provide assurance that all collections are accurate.

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### Recommendations

We believe that improved internal control over cash collections is needed to provide assurance that all revenues earned by GSI are properly collected and deposited to its account. Accordingly, we are recommending that:

1. Provision be made for sending cash register tapes to the accounting department with the daily report of collections and that the accounting department be instructed to make appropriate tests to determine whether amounts reported are in agreement with the amounts which the tapes show should have been collected.
2. Significant differences between the cash register tapes and cash collections be investigated and the investigator's report of his findings be submitted to the Comptroller.
3. Consideration be given to having cashiers ring the individual prices of items and obtain the total amount of the sale from the cash register rather than to mentally total the sale.

### INVENTORY LOSSES CHARGED TO SPOILAGE

We noted numerous instances in which perishable inventories that were lost were charged to spoilage. So far as we could ascertain no management action was taken to determine how the losses occurred and to prevent similar losses in the future. For example, in one case six boxes of crab meat, six boxes of beef patties, and 10 pounds of veal were lost in delivery. In another case, 12 cans of chicken stew sent by the warehouse upon delivery were found to be hot dog dressing. In both instances, the loss was charged to spoilage.

We could not ascertain who specifically authorized charging these losses to spoilage, but we were advised that such authorization was generally made by either the truck driver or the cafeteria manager.

### Conclusion and recommendation

We believe that the manner in which these shortages have been erroneously charged off as spoilage losses has not afforded proper control over inventories. Accordingly, we recommend that management provide for investigation of substantial losses in transfers and that approval to charge amounts to inventory shortages be required from some official not directly associated with delivery.

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BETTER SEGREGATION OF DUTIES NEEDED  
FOR EMPLOYEES' RETIREMENT FUND

One of the basic principles of internal control is that work of initiating, approving, recording, and following up each transaction be segregated between two or more persons so that the work of one employee can serve as a proof of the accuracy and appropriateness of the work of another. In examining the approvals on loan applications, we noted that this principle of separating duties between two or more persons had not been followed. In this respect, we noted that the trust officer for the Employment Retirement and Benefit Trust Fund, who is also GSI's secretary-treasurer, had the authority to initiate and approve loan transactions from the trust fund. Occasionally, he used this authority to approve loans to himself or to his wife, who also is employed by the corporation. Although we found no evidence that any adverse effects have resulted from this lack of separation of duties, we believe that a segregation of duties should be made to provide appropriate internal control.

Recommendation

We recommend that another official be given responsibility for countersigning approval of loans from the employees' retirement fund.

NEED TO REVISE CERTAIN  
COMPUTER PROGRAMS

GSI employs a commonly used technique to provide assurance that the wrong magnetic tape of data is not used in a computer processing run. This technique consists of the use of a tape header label which is magnetically coded at the beginning of each reel of tape and describes the type of data on the tape. The computer programs are written so that the computer will accept only data that the tape header label indicates is appropriate for the particular processing step being performed. If the tape header label indicates that the data on the tape is not appropriate for the processing run which the computer is to perform, the computer stops automatically to alert the operator that an improper tape has been put into processing. When the computer stops for this reason, it is called a label error. The computer operator, however, can override the label error, that is, he can restart the machine and process the data anyway.

During our work, we found that it was a common practice at GSI to override label errors and to proceed with processing the data. In the cases we noted, the processing was appropriate--the computer program simply had not been corrected so it would recognize certain tapes that were supposed to be processed under that program.

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Although the cases we noted did not produce adverse results, we consider it a dangerous practice to override label errors because the labels are intended to prevent the use of improper tapes and, if it becomes commonplace to ignore the labels, the likelihood that an improper tape will be processed is greatly increased. Processing an improper tape can be costly because numerous errors can be made in a matter of minutes or, in some cases, valuable data can be destroyed. In one such case in our knowledge, 200 duplicate paychecks were erroneously issued because an improper tape was used.

#### Recommendation

We recommend that GSI establish a policy prohibiting the overriding of label errors and that existing erroneous computer programs be corrected to provide for processing all tapes having data to be processed under those programs.

#### LACK OF BACKUP COMPUTER CAPABILITY

During our review, we noted that GSI has no arrangement for the timely performance of its work on some other similar or identical computer if its system should fail to function properly or be destroyed. In companies like GSI, where the computer is an integral part of day-to-day operations, a backup capacity is particularly important because malfunctioning of the computer could seriously affect the company's ability to perform its operations effectively. The computer manufacturer has informed GSI that it will provide only limited backup support in the future and has reserved the right to discontinue supporting the GSI computer at any time. In this respect, GSI's employees have considered this problem, but the RCA-301 computer GSI uses is reported to be the only one operating in the Washington/Baltimore area using model 382 magnetic tape drives. These tape drives are compatible with an RCA 70/441 tape unit. At present, the only known location using the 70/441 tape unit is the manufacturer's system center in Cherry Hill, New Jersey.

#### Recommendation

We recommend that GSI assign an individual or group of its employees the task of ascertaining the most appropriate way to provide the backup capability it needs.

#### NEED FOR DISASTER SAFEGUARDS FOR COMPUTER SYSTEM

The destruction of magnetic tapes containing financial and other data could seriously affect GSI's ability to continue operations efficiently. At the time of our review, GSI maintained all of its tapes on open racks

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in the computer room. It did not have fireproof storage for its tapes, nor did it have backup tapes for use in the event that the prime tapes were destroyed.

Recommendation

We recommend that GSI establish a plan for adequately safeguarding its data files.

COST REDUCTION MAY BE ATTAINABLE  
THROUGH SIMPLIFIED PROCEDURE

GSI's accounting data is punched into paper tape, using a machine which simultaneously prepares a visually readable proof copy for verification purposes. The paper tape, which has been punched with the accounting data, is used to prepare punchcards which are, in turn, used to transfer the data to magnetic tape.

A more efficient and economical procedure would be to allow the accounting clerks to convert the accounting data directly to magnetic tape. The data conversion process should be verified by someone other than the person who originally put the data on magnetic tape before the tape is used for processing. The elimination of the steps of preparing paper tape and then punchcards could produce substantial savings.

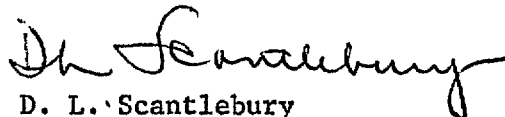
We discussed this matter with GSI officials and were advised that an order was placed to lease two machines that would allow the clerks to convert accounting data directly to magnetic tape.

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We would like to express our appreciation to Mr. William Melera, to Mr. Charles Wallace, and to your other accounting and data processing personnel for the cooperation and assistance they extended to our audit staff during the past year.

We will appreciate your comments concerning any action taken or planned by you on the matters discussed in this report.

Sincerely yours,

  
D. L. Scantlebury  
Regional Manager

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